

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Lake Linden	County Houghton
Fiscal Year End 2/28/07	Opinion Date 10/19/07	Date Audit Report Submitted to State 11/16/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

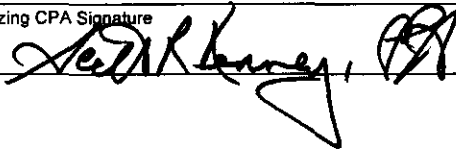
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☒ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☒ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Scott R. Kenney, CPA		Telephone Number 906-875-4393	
Street Address 1374 Commercial Avenue, Suite 1		City Crystal Falls	State MI
		Zip 49920	
Authorizing CPA Signature 	Printed Name Scott R. Kenney	License Number 11483	

VILLAGE OF LAKE LINDEN
AUDITED FINANCIAL STATEMENTS
HOUGHTON COUNTY, MICHIGAN

Fiscal Year Ended February 28, 2007

TABLE OF CONTENTS

	Page
Independent Auditor's Report	3
Management's Discussion and Analysis.	5
<u>FINANCIAL STATEMENTS</u>	
Government Wide Statement of Net Assets	10
Government Wide Statement of Activities.	11
Governmental Funds Balance Sheet	12
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets.	13
Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balance	14
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	15
Proprietary Funds Statement of Net Assets.	16
Proprietary Funds Statement of Revenues, Expenses and Changes in Net Assets	17
Proprietary Funds Statement of Cash Flows	18
Component Unit - Statement of Net Assets.	19
Component Unit - Statement of Revenues, Expenses and Changes in Net Assets	20
Notes to Financial Statements	21
<u>REQUIRED SUPPLEMENTAL INFORMATION</u>	
Budgetary Comparison Schedules:	
General Fund	34
Major Street Fund	35
Local Street Fund.	36
MERS Pension Funding and Statistics.	37
<u>ADDITIONAL INFORMATION</u>	
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting.	39

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INDEPENDENT AUDITOR'S REPORT

Village Board
Village of Lake Linden
401 Calumet Street
Lake Linden, MI 49945

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Lake Linden, Michigan, as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's elected officials and management. My responsibility is to express an opinion on these financial statements based on my audit. I did not audit the financial statements of the Lake Linden Housing Commission, a discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to me, and my opinion, insofar as it relates to the amounts included for the Lake Linden Housing Commission is based on the report of the other auditors.

Except as discussed in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

The financial statements of the Lake Linden Volunteer Fire Department (FIRE DEPARTMENT) have not been audited due to an unavailability of accounting records and supporting documents. The FIRE DEPARTMENT's financial statements referred to above are included in the Village's basic financial statements as a discretely presented component unit and represent one percent, one percent and five percent of the assets, net assets and revenues, respectively, of the Village's aggregate discretely presented component units.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the FIRE DEPARTMENT's financial statements been audited, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Lake Linden, Michigan, as of February 28, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Member
American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

The management's discussion and analysis and budgetary comparison information on pages 5 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

The budgetary comparison information on pages 34 through 36 is not a required part of the basic financial statements and I did not audit and do not express an opinion on such information. However, I have applied certain procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. As a result of such limited procedures, I believe the budgetary information is not in conformity with generally accepted accounting principles accepted in the United States of America because the budget that was adopted is not completed on a departmental basis as is required by the State of Michigan.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village of Lake Linden, Michigan's basic financial statements. The introductory section and additional information section are presented for additional analysis and are not a required part of the basic financial statements. The additional information section has been subjected to auditing procedures applied by me and the other auditors in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.



Certified Public Accountant

October 19, 2007

VILLAGE OF LAKE LINDEN
MANAGEMENT'S DISCUSSION AND ANALYSIS
February 28, 2007

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village's combined net assets increased 44.9% from a year ago - increasing from \$1.328 million to \$1.924 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase of approximately \$608,000 during the year (69.8% increase). This is attributed to the receipt of both federal and state grant funds to complete the streetscape project. In addition, the lay off of several employees and the close scrutiny of expenditures has eliminated the general fund deficit that we had experienced in the prior year. The business-type activities experienced a \$12,000 decrease in net assets, primarily due to the theft of funds by the former treasurer and inflationary expense increases. Charges were adjusted subsequent to year end in the Sanitation Fund the correct declining cash flows and profits. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current Assets	\$ 328	\$ 202	\$ 55	\$ 60	\$ 383	\$ 262
Noncurrent Assets	<u>1,522</u>	<u>888</u>	<u>1,479</u>	<u>1,495</u>	<u>3,001</u>	<u>2,383</u>
Total Assets	\$ 1,850	\$ 1,090	\$ 1,534	\$ 1,555	\$ 3,384	\$ 2,645
Long-Term Debt Outstanding	\$ 252	\$ 114	\$ 1,025	\$ 1,085	\$ 1,277	\$ 1,199
Other Liabilities	<u>119</u>	<u>105</u>	<u>64</u>	<u>14</u>	<u>183</u>	<u>119</u>
Total Liabilities	\$ 371	\$ 219	\$ 1,089	\$ 1,099	\$ 1,470	\$ 1,318
Net Assets						
Invested in Capital Assets-Net of Debt	\$ 1,333	\$ 773	\$ 403	\$ 398	\$ 1,736	\$ 1,172
Restricted	56	35	13	20	69	55
Unrestricted	<u>90</u>	<u>63</u>	<u>29</u>	<u>38</u>	<u>119</u>	<u>100</u>
Total Net Assets	\$ 1,479	\$ 871	\$ 445	\$ 456	\$ 1,924	\$ 1,327

VILLAGE OF LAKE LINDEN
MANAGEMENT'S DISCUSSION AND ANALYSIS
February 28, 2007

Unrestricted net assets—the part of net assets that can be used to finance day to day operations, increased by \$33,000 for the governmental activities. The current level of unrestricted net assets for our governmental activities stands at \$90,000. The unrestricted net assets in the business type funds decreased slightly (\$9,000) to \$29,000.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Program Revenues						
Charges for Services	\$ 24	\$ 33	\$ 203	\$ 188	\$ 227	\$ 221
Operating Grants and Contributions	184	150	0	0	184	150
Capital Grants and Contributions	624	44	0	0	624	44
General Revenues						
Property Taxes	\$ 126	\$ 151	\$ 0	\$ 0	\$ 126	\$ 151
State-Shared Revenues	151	139	0	0	151	139
Unrestricted Investment Earnings	30	1	0	0	30	1
Sale of property	5	0	0	0	5	0
Transfers and Other Revenue	<u>5</u>	<u>7</u>	<u>(1)</u>	<u>0</u>	<u>4</u>	<u>7</u>
Total Revenues	\$ 1,149	\$ 525	\$ 202	\$ 188	\$1,351	\$ 713
Program Expenses						
General Government	\$ 91	\$ 97	\$ 0	\$ 0	\$ 91	\$ 97
Public Safety	83	89	0	0	83	89
Public Works	230	216	0	0	230	216
Insurance and benefits	92	146	0	0	92	146
Recreation & Culture	42	45	0	0	42	45
Interest on Long-Term Debt	3	3	0	0	3	3
Water & Sewer	<u>0</u>	<u>0</u>	<u>213</u>	<u>198</u>	<u>213</u>	<u>198</u>
Total Expenses	\$ 541	\$ 596	\$ 213	\$ 198	\$ 754	\$ 794
Change in Net Assets	\$ 608	\$ (71)	\$ (11)	\$ (10)	\$ 597	\$ (81)

The Village's net assets increased due to the grants that were received and remain at a relatively low level. The Village Board will continue to evaluate costs saving measures and increase fees as appropriate to assure that net assets continue to grow.

VILLAGE OF LAKE LINDEN
MANAGEMENT'S DISCUSSION AND ANALYSIS
February 28, 2007

Governmental Activities

The Village's total governmental revenues increased by approximately \$624,000, the amount of the capital grants received in the past year. Other revenues remained at a steady level.

Cash expenditures increased by more than \$518,000 during the year. This was due to streetscape construction project work undertaken during the year offset by the savings from the layoffs and other cost savings measures that have been implemented. Other expenditures increased by approximately normal inflationary rates.

Business-Type Activities

The Village's business-type activities consist of the Water and Sanitation Funds. The Village provides water to residents, which comes from the Village's own water system. The Village also provides sanitation services (garbage removal) to residents utilizing its public works employees.

Over the past five years, the Village has been defrauded of a portion of its utility receipts by the former treasurer. To determine the amount that had been fraudulently taken from the Village, an independent special procedures engagement by an independent CPA was undertaken. The amount taken during the period totaled more than \$70,000. The amount is comprised of both village and sewer authority funds with the Village's portion of the loss determined to be slightly more than \$33,000. The balance of the loss is attributed to the sewer authority. The Village has billed and collected for sewer authority services as part of its utility billing procedures.

The Village revenues in the Sanitation Fund lagged the necessary amount to create profit and positive cash flows in the fund. Subsequent to year end, the Village adopted a plan to increase its Sanitation Fund revenues and the anticipated increase in revenues is expected to create adequate cash flows and a profit in the fund.

The Village's Funds

Analysis of the Village's major funds begins on page 12, following the entity-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a special property tax millage. The Village's major funds for 2006-2007 include the General Fund, Major Street Fund, Local Street Fund, Water Fund and Sanitation Fund.

The General Fund pays for most of the Village's governmental services. The most significant are general maintenance of Village property and buildings, maintaining the Village's equipment, police

VILLAGE OF LAKE LINDEN
MANAGEMENT'S DISCUSSION AND ANALYSIS
February 28, 2007

and fire services and general administration. At the beginning of 2006-2007, the Village Board took action to combine the Sewer Rehab Fund (no fund balance) and Equipment Fund (only fixed assets in fund balance) into the General fund. The Sewer rehabilitation project had been completed during the prior year with no further assessments or charges. The former Equipment Fund is maintained as a separate activity in the General Fund to track equipment usage and costs. The balance of General Fund services are primarily funded from property taxes assessed to the residents of the Village and revenues shared with the State of Michigan.

The Major and Local Street Funds are funded primarily from revenue sharing from the State of Michigan. The utility funds are funded primarily from user charges and assessments.

General Fund Budgetary Highlights

The Village budget has not been adopted or maintained in conformance with the Uniform Budgeting Act (Act) of the State of Michigan. The Act requires that each function (activity or department) be budgeted with budgetary amounts approved for each function or line item within the function. The Budget was adopted but on a total category for each fund. For example, general fund supplies were approved but not divided on an activity basis. As a result, budgetary comparison with actual performance are not displayed in the financial statements.

Capital Asset and Debt Administration

At the end of 2006-2007, the Village had a broad range of capital assets, including snow removal equipment, police and fire equipment, buildings, water and sanitation systems. In addition, the Village has invested significantly in roads within the Village. The cost value of the roads acquired prior to July 1, 2003, are not required to be reported in the Village's financial statements under accounting principles generally accepted in the United States of America. Consequently, the cost of the roads acquired prior to the 2003-2004 fiscal year are not included in these financial statements.

The Village undertook and substantially completed its streetscape project during the 2006-2007 year. The project was financed with federal and state grant funds along with a loan of \$125,000 that was used to provide the required matching amounts on the project. The loan will be repaid with funds provided by the Downtown Development Authority.

The Village approved applying for a line of credit with a local bank to provide short term funds as needed. The approved amount was \$75,000 with \$50,000 being drawn on the line of credit during the year and remained outstanding as of the end of the year.

VILLAGE OF LAKE LINDEN
MANAGEMENT'S DISCUSSION AND ANALYSIS
February 28, 2007

Economic Factors and Next Year's Budgets and Rates

The Village's budget for 2007-2008 calls for an increase in property tax rates to be placed in the Sanitation Fund. Other rates are remaining constant which can be accomplished because of the controls that are being placed on governmental fund expenditures following the past year reductions. Because of the impact of Proposal A and the limited amount of net assets available, however, the Village needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result of this is that the total taxable value for the Village will grow at a rate less than inflation, before considering new property additions.

Contacting the Village's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the manager's office.

VILLAGE OF LAKE LINDEN
GOVERNMENT WIDE STATEMENT OF NET ASSETS
FEBRUARY 28, 2007

		PRIMARY GOVERNMENT			
		GOVERNMENTAL	BUSINESS-TYPE		COMPONENT
		ACTIVITIES	ACTIVITIES	TOTAL	UNITS
ASSETS					
CURRENT ASSETS					
Cash and equivalents	\$	146,017	\$ 9,199	\$ 155,216	\$ 288,733
Receivables - net		93,437	32,053	125,490	3,170
Inventory		35,017	13,252	48,269	0
Prepaid expenses		20,962	0	20,962	13,487
Internal balances		32,160	163	32,323	0
TOTAL CURRENT ASSETS		\$ 327,593	\$ 54,667	\$ 382,260	\$ 305,390
RESTRICTED ASSETS - Cash and equivalents	\$	728	\$ 22,985	\$ 23,713	\$ 10,650
NON-CURRENT ASSETS					
Property and equipment, net of depreciation	\$	1,521,939	\$ 1,457,479	\$ 2,979,418	\$ 1,979,249
Due from primary government		0	0	0	27,839
TOTAL NON-CURRENT ASSETS		\$ 1,521,939	\$ 1,457,479	\$ 2,979,418	\$ 2,007,088
TOTAL ASSETS		\$ 1,850,260	\$ 1,535,131	\$ 3,385,391	\$ 2,323,128
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	\$	28,422	\$ 7,759	\$ 36,181	\$ 2,219
Accrued and other liabilities		7,060	12,039	19,099	33,524
Interprogram payables		19,204	15,617	34,821	0
Current part of non-current liabilities		64,489	7,147	71,636	0
TOTAL CURRENT LIABILITIES		\$ 119,175	\$ 42,562	\$ 161,737	\$ 35,743
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		\$ 0	\$ 22,853	\$ 22,853	\$ 0
NON-CURRENT LIABILITIES					
Compensated absences	\$	34,345	\$ 0	\$ 34,345	\$ 0
Due to component unit		27,839	0	27,839	0
Bonds payable		189,233	0	189,233	0
Revenue bonds payable		0	1,025,000	1,025,000	0
TOTAL NON-CURRENT LIABILITIES		\$ 251,417	\$ 1,025,000	\$ 1,276,417	\$ 0
TOTAL LIABILITIES		\$ 370,592	\$ 1,090,415	\$ 1,461,007	\$ 35,743
NET ASSETS					
Invested in capital assets, net of related debt	\$	1,332,706	\$ 402,479	\$ 1,735,185	\$ 1,979,249
Restricted for					
Prepaid expenses		20,962	0	20,962	0
Inventory		35,017	13,252	48,269	0
Capital outlay		728	132	860	0
Unrestricted		90,255	28,853	119,108	308,136
TOTAL NET ASSETS		\$ 1,479,668	\$ 444,716	\$ 1,924,384	\$ 2,287,385

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE LINDEN
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
Year ended February 28, 2007

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES	OPERATING	CAPITAL	PRIMARY GOVERNMENT			COMPONENT UNITS
		FOR SERVICES	GRANTS AND CONTRIBUTIONS	GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Governmental Activities								
General government	\$ 90,834	\$ 0	\$ 0	\$ 0	\$ (90,834)		\$ (90,834)	
Public safety	82,689	6,615	0	0	(76,074)		(76,074)	
Public works	230,309	6,344	183,713	539,105	498,853		498,853	
Insurance and benefits	91,755	0	0	0	(91,755)		(91,755)	
Recreation and culture	41,962	11,097	0	85,012	54,147		54,147	
Interest on long-term debt	<u>3,522</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(3,522)</u>		<u>(3,522)</u>	
TOTAL GOVERNMENTAL ACTIVITIES	\$ <u>541,071</u>	\$ <u>24,056</u>	\$ <u>183,713</u>	\$ <u>624,117</u>	\$ 290,815		\$ 290,815	
Business-Type Activities								
Water	\$ 157,114	\$ 149,879	\$ 0	\$ 0		\$ (7,235)	\$ (7,235)	
Sanitation	<u>55,946</u>	<u>53,065</u>	<u>0</u>	<u>0</u>		<u>(2,881)</u>	<u>(2,881)</u>	
TOTAL BUSINESS-TYPE ACTIVITIES	\$ <u>213,060</u>	\$ <u>202,944</u>	\$ <u>0</u>	\$ <u>0</u>		\$ (10,116)	\$ (10,116)	
Component Units								
Downtown Development Authority	\$ 9,959	\$ 0	\$ 0	\$ 0				\$ (9,959)
Volunteer fire department	21,489	0	0	0				(21,489)
Housing Commission	<u>386,657</u>	<u>172,886</u>	<u>52,436</u>	<u>235,476</u>				<u>74,141</u>
TOTAL COMPONENT UNITS	\$ <u>418,105</u>	\$ <u>172,886</u>	\$ <u>52,436</u>	\$ <u>235,476</u>				\$ 42,693
GENERAL REVENUES								
Property taxes					\$ 126,639	\$ 0	\$ 126,639	\$ 27,885
State shared revenues and grants					150,807	0	150,807	2,000
Unrestricted investments earnings					29,989	213	30,202	9,813
Fines and forfeitures					157	0	0	0
Reimbursements					0	0	0	0
Other					7,612	0	7,612	23,651
SPECIAL ITEMS								
Gain (loss) on sale of property					5,235	0	5,235	0
Theft loss					0	(4,592)	(4,592)	0
TRANSFERS					<u>(2,879)</u>	<u>2,879</u>	<u>0</u>	<u>0</u>
TOTAL GENERAL REVENUES AND SPECIAL ITEMS					\$ <u>317,560</u>	\$ <u>(1,500)</u>	\$ <u>316,060</u>	\$ <u>63,349</u>
CHANGE IN NET ASSETS								
Net assets - beginning					\$ <u>608,375</u>	\$ <u>(11,616)</u>	\$ <u>596,759</u>	\$ <u>106,042</u>
					<u>871,293</u>	<u>456,332</u>	<u>1,327,625</u>	<u>2,181,343</u>
NET ASSETS - ENDING					\$ <u><u>1,479,668</u></u>	\$ <u><u>444,716</u></u>	\$ <u><u>1,924,384</u></u>	\$ <u><u>2,287,385</u></u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE LINDEN
GOVERNMENTAL FUNDS BALANCE SHEET
COMBINED BALANCE SHEET
February 28, 2007

	<u>GENERAL FUND</u>	<u>MAJOR STREET FUND</u>	<u>LOCAL STREET FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS				
Cash and equivalents	\$ 60,688	\$ 42,506	\$ 42,823	\$ 146,017
Accounts/notes receivable	6,372	0	0	6,372
Due from other funds	15,457	6,582	10,121	32,160
Due from other governmental units	39,178	30,984	16,903	87,065
Inventory	35,017	0	0	35,017
Prepaid expenses	20,962	0	0	20,962
Restricted assets	<u>728</u>	<u>0</u>	<u>0</u>	<u>728</u>
TOTAL ASSETS	\$ <u>178,402</u>	\$ <u>80,072</u>	\$ <u>69,847</u>	\$ <u>328,321</u>
LIABILITIES				
Accounts payable	\$ 22,792	\$ 0	\$ 5,630	\$ 28,422
Accrued payroll expense	5,051	1,216	793	7,060
Due to other funds	<u>11,701</u>	<u>7,503</u>	<u>0</u>	<u>19,204</u>
TOTAL LIABILITIES	\$ 39,544	\$ 8,719	\$ 6,423	\$ 54,686
FUND BALANCES				
Reserved for				
Prepaid expenses	\$ 20,962	\$ 0	\$ 0	\$ 20,962
Inventory	35,017	0	0	35,017
Capital outlay	728	0	0	728
Unreserved	<u>82,151</u>	<u>71,353</u>	<u>63,424</u>	<u>216,928</u>
TOTAL FUND EQUITY	\$ <u>138,858</u>	\$ <u>71,353</u>	\$ <u>63,424</u>	\$ <u>273,635</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>178,402</u>	\$ <u>80,072</u>	\$ <u>69,847</u>	\$ <u>328,321</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE LINDEN
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
February 28, 2007

Total fund balance - total governmental funds	\$ 273,635
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds net of related depreciation	1,521,939
Long term liabilities:	
Bonds not due and payable within the current period and not reported in the funds	(281,561)
Accumulated employee vacation and personal pay not used in current period	<u>(34,345)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>1,479,668</u></u>

VILLAGE OF LAKE LINDEN
GOVERNMENTAL FUNDS STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCE
Year ended February 28, 2007

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Property taxes	\$ 131,279	\$ 0	\$ 46,544	\$ 177,823
Federal grants	85,012	172,188	0	257,200
State shared revenues and grants	150,807	477,905	59,535	688,247
Fines and forfeitures	157	0	0	157
Charges for services	24,056	0	0	24,056
Interest and rentals	114,473	515	108	115,096
Sale of property	5,235	0	0	5,235
Contributions from other governmental units	0	0	13,190	13,190
Loan proceeds	175,000	0	0	175,000
Other	<u>7,612</u>	<u>0</u>	<u>0</u>	<u>7,612</u>
TOTAL REVENUES	\$ 693,631	\$ 650,608	\$ 119,377	\$ 1,463,616
EXPENDITURES				
Current				
General government	\$ 84,978	\$ 0	\$ 0	\$ 84,978
Public safety	67,951	0	0	67,951
Public works	105,141	96,411	77,694	279,246
Recreation	28,799	0	0	28,799
Insurance and benefits	101,749	0	0	101,749
Capital outlay	151,424	540,075	0	691,499
Debt service	<u>10,155</u>	<u>0</u>	<u>0</u>	<u>10,155</u>
TOTAL EXPENDITURES	\$ 550,197	\$ 636,486	\$ 77,694	\$ 1,264,377
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 143,434	\$ 14,122	\$ 41,683	\$ 199,239
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 0	\$ 0	\$ 16,233	\$ 16,233
Transfers (out)	<u>(2,879)</u>	<u>(16,233)</u>	<u>0</u>	<u>(19,112)</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ (2,879)	\$ (16,233)	\$ 16,233	\$ (2,879)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ 140,555	\$ (2,111)	\$ 57,916	\$ 196,360
Fund balance - beginning	<u>(1,697)</u>	<u>73,464</u>	<u>5,508</u>	<u>77,275</u>
FUND BALANCE - ENDING	\$ <u>138,858</u>	\$ <u>71,353</u>	\$ <u>63,424</u>	\$ <u>273,635</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE LINDEN
RECONCILIATION OF STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
Year ended February 28, 2007

Net change in fund balance - total governmental funds	\$ 196,360
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation.	621,572
Eliminate effect of loan proceeds reported as revenue in governmental fund not recognized in the Statement of Activities	(175,000)
Long term loan from Downtown Development Authority recorded as revenue in the governmental fund but not in the Statement of Activities	(30,339)
Eliminate effect of recognition of deferred revenue (property taxes) recorded as a revenue in prior year Statement of Activities	(20,845)
Repayments of loan principal is an expenditure in the governmental funds but not in the Statement of Activities (where it reduces long-term debt).	6,633
Decreases in accumulated employee vacation and personal pay are recorded when earned in the Statement of Activities	<u>9,994</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>608,375</u></u>

VILLAGE OF LAKE LINDEN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
February 28, 2007

		<u>SANITATION</u>	<u>WATER UTILITY</u>	<u>TOTAL BUSINESS TYPE FUNDS</u>
ASSETS				
Current Assets:				
Cash and equivalents	\$	1,580	\$ 7,619	\$ 9,199
Accounts receivable		4,100	26,988	31,088
Due from other funds		163	0	163
Due from other governmental units		0	965	965
Inventory		<u>5,045</u>	<u>8,207</u>	<u>13,252</u>
TOTAL CURRENT ASSETS	\$	10,888	\$ 43,779	\$ 54,667
Restricted Assets	\$	0	\$ 22,985	\$ 22,985
Property, plant and equipment:				
System assets	\$	0	\$ 1,990,703	\$ 1,990,703
Less accumulated depreciation		<u>0</u>	<u>(533,224)</u>	<u>(533,224)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$	0	\$ 1,457,479	\$ 1,457,479
TOTAL ASSETS	\$	10,888	\$ 1,524,243	\$ 1,535,131
LIABILITIES				
Current Liabilities:				
Accounts payable	\$	1,175	\$ 6,584	\$ 7,759
Accrued payroll expenses		309	740	1,049
Accrued interest		0	10,990	10,990
Due to other funds		9,404	6,213	15,617
Current portion of long term debt		<u>0</u>	<u>7,147</u>	<u>7,147</u>
TOTAL CURRENT LIABILITIES	\$	10,888	\$ 31,674	\$ 42,562
Non-Current Liabilities:				
Current liabilities payable from restricted assets	\$	0	\$ 22,853	\$ 22,853
Revenue bond payable		<u>0</u>	<u>1,025,000</u>	<u>1,025,000</u>
TOTAL LIABILITIES	\$	10,888	\$ 1,079,527	\$ 1,090,415
NET ASSETS				
Invested in capital assets - net of related debt	\$	0	\$ 402,479	\$ 402,479
Restricted for repairs and reconstruction		0	132	132
Unrestricted		<u>0</u>	<u>42,105</u>	<u>42,105</u>
TOTAL NET ASSETS	\$	0	\$ 444,716	\$ 444,716

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE LINDEN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year ended February 28, 2007

	<u>SANITATION</u>	<u>WATER UTILITY</u>	<u>TOTAL BUSINESS TYPE FUNDS</u>
OPERATING REVENUES			
Charges for services:			
Sales, fees and service charges	\$ 53,065	\$ 145,861	\$ 198,926
Taps, thaws and other services	0	2,082	2,082
Billings services	0	1,936	1,936
Program grants - subsidies	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING REVENUES	\$ 53,065	\$ 149,879	\$ 202,944
OPERATING EXPENSES			
Personal services	\$ 18,013	\$ 48,309	\$ 66,322
Contractual services	23,610	6,886	30,496
Repairs and maintenance	980	2,439	3,419
Equipment rental	7,149	14,349	21,498
Supplies	6,089	4,185	10,274
Utilities	0	13,864	13,864
Other services and charges	105	1,987	2,092
Depreciation	<u>0</u>	<u>37,968</u>	<u>37,968</u>
TOTAL OPERATING EXPENSES	\$ 55,946	\$ 129,987	\$ 185,933
NET OPERATING INCOME (LOSS)	\$ (2,881)	\$ 19,892	\$ 17,011
NON-OPERATING GAINS/LOSSES			
Interest earned	\$ 2	\$ 211	\$ 213
Interest expense and bond administration	0	(27,127)	(27,127)
Transfers from/(to) other funds	2,879	0	2,879
Theft loss	<u>0</u>	<u>(4,592)</u>	<u>(4,592)</u>
CHANGE IN NET ASSETS	\$ 0	\$ (11,616)	\$ (11,616)
Net assets - beginning	<u>0</u>	<u>456,332</u>	<u>456,332</u>
NET ASSETS - ENDING	\$ <u>0</u>	\$ <u>444,716</u>	\$ <u>444,716</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE LINDEN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended February 28, 2007

	<u>SANITATION</u>	<u>WATER UTILITY</u>	<u>TOTAL BUSINESS TYPE FUNDS</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 51,880	\$ 149,993	\$ 201,873
Receipts from grants and subsidies	0	0	0
Payments to suppliers	(38,123)	(37,975)	(76,098)
Payments to or on behalf of employees	(17,981)	(48,073)	(66,054)
Payment in lieu of taxes	0	0	0
Internal activity-payments from (to) other funds	<u>200</u>	<u>(1,133)</u>	<u>(933)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ (4,024)	\$ 62,812	\$ 58,788
CASH FLOWS FROM/(TO) NON-CAPITAL FINANCING ACTIVITIES			
Transfers in	\$ 2,879	\$ 0	\$ 2,879
Theft loss	<u>0</u>	<u>(4,592)</u>	<u>(4,592)</u>
TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	\$ 2,879	\$ (4,592)	\$ (1,713)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal and interest paid on capital debt	\$ 0	\$ (57,439)	\$ (57,439)
Purchases of capital assets	0	0	0
Reduction of funding restricted accounts	<u>0</u>	<u>(2,641)</u>	<u>(2,641)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ 0	\$ (60,080)	\$ (60,080)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned	\$ <u>2</u>	\$ <u>211</u>	\$ <u>213</u>
NET INCREASE (DECREASE) IN CASH	\$ (1,143)	\$ (1,649)	\$ (2,792)
Cash and equivalents - beginning	<u>2,723</u>	<u>9,268</u>	<u>11,991</u>
CASH AND EQUIVALENTS - ENDING	\$ <u><u>1,580</u></u>	\$ <u><u>7,619</u></u>	\$ <u><u>9,199</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (2,881)	\$ 19,892	\$ 17,011
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation	0	37,968	37,968
Change in Assets and Liabilities			
Receivables - net	(1,185)	114	(1,071)
Inventories	115	(525)	(410)
Due from other funds	0	588	588
Accounts payable	(305)	6,260	5,955
Accrued payroll expense	32	236	268
Due to other funds	<u>200</u>	<u>(1,721)</u>	<u>(1,521)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>(4,024)</u></u>	\$ <u><u>62,812</u></u>	\$ <u><u>58,788</u></u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE LINDEN
STATEMENT OF NET ASSETS
COMPONENT UNITS - GOVERNMENTAL TYPE FUNDS
February 28, 2007

	<u>DOWNTOWN DEVELOPMENT AUTHORITY</u>	<u>LAKE LINDEN VOLUNTEER FIRE DEPARTMENT</u>	<u>TOTAL</u>
ASSETS			
Cash and equivalents	\$ 30,918	\$ 24,354	\$ 55,272
Due from primary government - general fund	2,500	0	2,500
Due from other governmental units	<u>670</u>	<u>0</u>	<u>670</u>
	\$ 34,088	\$ 24,354	\$ 58,442
NET ASSETS			
Unrestricted net assets	\$ <u>34,088</u>	\$ <u>24,354</u>	\$ <u>58,442</u>
	<u>\$ 34,088</u>	<u>\$ 24,354</u>	<u>\$ 58,442</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE LINDEN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
COMPONENT UNITS - GOVERNMENTAL TYPE FUNDS
Year ended February 28, 2007

		<u>DOWNTOWN DEVELOPMENT AUTHORITY</u>		<u>LAKE LINDEN VOLUNTEER FIRE DEPARTMENT</u>		<u>TOTAL</u>
REVENUES						
Property taxes	\$	46	\$	0	\$	46
State grants and shared revenues		2,000		0		2,000
Interest		5,119		275		5,394
Contributions/fund raising		0		23,471		23,471
Other		<u>180</u>		<u>0</u>		<u>180</u>
TOTAL REVENUES	\$	7,345	\$	23,746	\$	31,091
EXPENDITURES						
Administration	\$	511	\$	0	\$	511
Interest subsidies		2,599		0		2,599
Public safety - fire		0		4,219		4,219
Community betterment		5,839		17,270		23,109
Capital outlay		<u>20,194</u>		<u>0</u>		<u>20,194</u>
TOTAL EXPENDITURES	\$	<u>29,143</u>	\$	<u>21,489</u>	\$	<u>50,632</u>
EXCESS OF REVENUES OVER/(UNDER) EXPENDITURES						
	\$	(21,798)	\$	2,257	\$	(19,541)
Net assets - beginning		<u>55,886</u>		<u>22,097</u>		<u>77,983</u>
NET ASSETS - ENDING	\$	<u><u>34,088</u></u>	\$	<u><u>24,354</u></u>	\$	<u><u>58,442</u></u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE LINDEN
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Lake Linden, Michigan (Village) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village:

I. Reporting Entity

The Village is governed by an elected seven member board (Board) and consists of approximately 440 acres with a population of 1,081 according to the 2000 census. The accompanying financial statements present the government and its component units, entities for which the Village is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the Village's operations.

DISCRETELY PRESENTED COMPONENT UNIT

The following component unit is reported within the "component unit" column in the government wide financial statements. The discretely presented component unit is an entity that is legally separate from the Village, but for which the Village is financially accountable, or its relationship with the Village is such that exclusion would cause the Village's financial statements to be misleading or incomplete.

Downtown Development Authority

The Downtown Development Authority is governed by a board of trustees appointed by the Village Board. Its purpose is to provide improvements to property and recreational opportunities for the Village for property located within its district boundaries. The funding is provided by a Tax Incremental Financing plan. Separate financial statements are not prepared and as such are included as part of this report.

Lake Linden Volunteer Fire Department

The Lake Linden Volunteer Fire Department (Department) is governed by its members. The purpose is to provide fire protection services to the citizens of the Village of Lake Linden and mutual aid to surrounding jurisdictions. In addition, the Department has conducted various fund raising operations and conducted the annual Independence Day program and purchased or contributed toward the purchase of various equipment used in association with the Department's stated mission. Separate financial statements are not prepared and as such are included as part of this report.

Lake Linden Housing Commission

The Lake Linden Housing Commission was established in 1974 under criteria established for low income housing programs by the United States Department of Housing and Urban Development is governed by a board of commissioners appointed by the Village Board. Its purpose is to provide low

VILLAGE OF LAKE LINDEN
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lake Linden Housing Commission (Continued)

cost housing to elderly and low income families in the Village. The separately issued audited financial statements of the Lake Linden Housing Commission are available at its offices at 210 Calumet Street, Lake Linden, MI 49945.

Jointly Governed Organizations

Torch Lake Sewage Authority

The Village is one of four municipalities participating jointly in the Sewage Authority. All of the financial operations of the Authority are recorded in a separate set of financial records and are available at the Sewage Authority Offices.

The funding formula approved by the members of the Local Units calls for the charging of each property based on its water consumption. The Village charges the services, collects the fees and remits the fees to the Sewage Authority as received.

II. Government-Wide and Fund Financial Statements

The government-wide statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

III. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus

VILLAGE OF LAKE LINDEN
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

III. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable—Current Property Taxes

The Village property tax is levied on each July 1st on the taxable valuation of property (as defined by State statutes) located in the Village as of the preceding December 31st.

The Village's 2006 ad valorem tax is levied and collectible on July 1, 2006. It is the Village's policy to recognize revenue from the current tax levy when the tax is levied for real property and when collected for personal property as the amounts are then "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2006 taxable valuation of the Village totaled \$10.4 million, on which ad valorem taxes levied consisted of 10.2438 mills for the Village operating purposes and 4.0993 mills for Village street improvements and maintenance. These assessments generated a levy of \$94,676 for financing operations, \$37,887 for street improvements and maintenance and \$16,995 in Tax Increments payable to the Downtown Development Authority. These amount are recognized in the General Fund, Local Street Fund and Downtown Development Fund financial statements, respectively, as property taxes. Payments due to the Downtown Development Authority for tax collections have not been made in compliance with Michigan Statutes.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

VILLAGE OF LAKE LINDEN
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

III. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Major Streets.

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Local Streets.

The government reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

The Sanitation Fund accounts for the activities of the garbage collection system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Village's proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognizes the portion of the fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.

VILLAGE OF LAKE LINDEN
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

III. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Receivables and Payables— In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “due to/from other funds.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items— Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets— The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets— Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The infrastructure assets acquired prior to July 1, 2003, have been excluded from the financial statements in compliance with Governmental Accounting Standards Board Statement No. 34. The value of future acquisitions of infrastructure assets will be capitalized and depreciated.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water Lines	40 to 60 years
Roads	10 to 30 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 10 years

VILLAGE OF LAKE LINDEN
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

III. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Compensated Absences— It is the Village's policy to permit employees to accumulate earned but unused paid time off benefits, up to a maximum of 240 hours. All leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for amounts paid within 60 days of the end of the fiscal year.

Long-Term Obligations— In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity— In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications— Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information— Annual budgets are adopted on a cash basis. All annual appropriations lapse at fiscal year end. The budget document presents information by fund and total account which is not in compliance with the Uniform Budgeting Act of the State of Michigan.

VILLAGE OF LAKE LINDEN
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

NOTE B–STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Due to the method of adopting the budget, the comparisons of actual reported expenditures cannot be compared to the budgetary amounts.

NOTE C–DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan; bond securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village has designated two banks for the deposit of Village funds. The investments policy adopted by the board in accordance with Public Act 196 of 1997, as amended, had authorized investment in bonds and securities of the United States government and its agencies and bank time deposit accounts but not the remainder of State statutory authority as listed above. The Village's deposits and investment policy are in accordance with statutory authority.

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Unit
Cash & Cash Equivalents	\$ 146,017	\$ 9,199	\$ 155,216	\$ 289,733
Restricted Assets	728	22,985	23,713	10,650
Total	\$ 146,745	\$ 32,184	\$ 178,929	\$ 300,383

All of the cash and equivalents have been placed in bank accounts at the various approved financial institutions. The primary government bank balance is \$178,929 of which \$169,214 is covered by federal depository insurance.

VILLAGE OF LAKE LINDEN
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

NOTE D - ACCUMULATED DEFICITS

The Village does not have accumulated deficits in its unreserved fund balance or retained earnings accounts in any of its funds.

NOTE E - INTERFUND TRANSFERS, RECEIVABLES AND PAYABLE

The Village approved and transferred \$2,879 from the General Fund to the Sanitation Fund and \$16,233 from the Major Street Fund to the Local Street Fund.

The February 28, 2007 balances of interfund receivables and payables are as follows:

<u>Due From</u>	<u>Due to</u>	<u>Amount</u>
General	Sanitation	\$ 9,404
General	Water	6,053
Downtown Development	General	2,500
Local Streets	General	2,619
Major Streets	General	6,582
Major Streets	Local Streets	7,503
Sanitation	Water	163

An additional amount is owed from the General Fund to the Downtown Development Authority. This amount is included in the Long Term Debt Note below.

NOTE F - CONTINGENCY

Based on a special procedures engagement conducted for the Village, the Village has been defrauded of nearly \$33,000. In addition, collections of more than \$39,000 by the Village on behalf of the Torch Lake Sewage Authority were also fraudulently taken. The Village carried an employee dishonesty bond on the officer that took the funds for \$25,000. It is not known if the bonding company will cover the entire loss because no one year's theft exceeded the policy limit. It is also not known if the Village will be required to repay the amounts taken that belonged to the Torch Lake Sewage Authority.

NOTE G - PENSION PLAN

The Village contributes to the Michigan Municipal Retirement System (MERS), a multiple-employer public retirement system that acts as a common investment and administrative agent for municipalities in the State of Michigan.

All full-time Village employees and officers are eligible to participate in the MERS. Benefits vest after ten

VILLAGE OF LAKE LINDEN
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

NOTE G - PENSION PLAN (CONTINUED)

years of service. Normal retirement provisions of the MERS apply to participants who retire at or after age 60 with at least 10 years of credited service.

The annual retirement benefits of covered employees vary depending on the valuation division. The annual retirement benefits are 2.0% of final average compensation for their last five years of employment multiplied by their years of credited service.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2006. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 8.40% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.0% annually for beneficiaries.

GASB 25 INFORMATION (as of 12/31/06)

Actuarial Accrued Liability:

Retiree and beneficiaries currently receiving benefits	\$ 119,863
Terminated employees not yet receiving benefits	138,306
Non-vested terminated employees	0
Current employees:	
Accumulated employee contributions	
including allocated investment income	0
Employer financed	<u>549,013</u>
Total Actuarial Liability	\$ 807,182
Net assets available for benefits, at actuarial value	595,720
(Market Value is \$604,053)	<u> </u>
Unfunded (overfunded) actuarial accrued liability	<u><u>\$ 211,462</u></u>

GASB 27 INFORMATION (as of 12/31/06)

Fiscal year beginning	March 1, 2008
Annual required contributions (ARC)	\$ 28,884
Amortization factor used	0.119963

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2006 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

VILLAGE OF LAKE LINDEN
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

NOTE H - CHANGES IN CAPITAL ASSETS

Capital asset activity for the Village for the year ended February 28, 2007 was as follows:

	Beginning	Additions	Disposals	Ending
Governmental Funds				
Assets not depreciated - Land	\$ 72,403	\$ 0	\$ 0	\$ 72,403
Assets depreciated				
Land improvements	174,038	3,153	0	177,191
Buildings and improvements	184,502	148,271	0	332,773
Marina docks	209,306	0	0	209,306
Road networks	88,621	540,075	0	628,696
Equipment and vehicles	<u>850,974</u>	<u>12,855</u>	<u>0</u>	<u>863,829</u>
Total at Historic Cost	\$1,579,844	\$ 704,354	\$ 0	\$2,284,198
 Less Accumulated Depreciation for:				
Land improvements	\$ 40,518	\$ 3,529	\$ 0	\$ 44,047
Buildings and improvements	81,738	7,062	0	88,800
Marina docks	60,254	5,233	0	65,487
Road networks	2,395	16,544	0	18,949
Equipment and vehicles	<u>507,426</u>	<u>37,550</u>	<u>0</u>	<u>544,976</u>
Total Accumulated Depreciation	\$ 692,331	\$ 69,928	\$ 0	\$ 762,259
 Net Governmental Funds - Capital Assets	<u>\$ 887,513</u>			<u>\$1,521,939</u>
 Business Type Funds				
Assets depreciated				
Water utility system	\$1,990,703	\$ 0	\$ 0	\$1,990,703
Less Accumulated Depreciation for:				
Water utility system	<u>495,164</u>	<u>38,060</u>	<u>0</u>	<u>533,224</u>
 Net Business Type Funds - Capital Assets	<u>\$1,495,539</u>			<u>\$1,457,479</u>

Depreciation expense was charged to programs of the Village as follows:

Governmental Activities	
General Government	\$ 5,856
Public Safety	14,738
Public Works	36,170
Parks and Recreation	<u>13,164</u>
 Total Governmental Activities	<u>\$ 69,928</u>
 Business Type Activities	
Water	<u>\$ 38,060</u>

VILLAGE OF LAKE LINDEN
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

NOTE I - CHANGES IN LONG TERM DEBT

In November, 2004, the Village borrowed \$73,500 to purchase a fire truck. Repayment of the loan is expected to be made with General Fund revenues. Interest at the rate of 4.25% is payable semi-annually on June 1 and December 1 and principal is payable annually on December 1.

On February 23, 2006, the Village borrowed \$12,855 to purchase a used pickup truck. Repayment of the loan is expected to be made with General Fund revenues. Monthly payments of \$343.27 include interest at the rate of 12.75%.

On May 1, 2006, the Village sold general obligation limited tax bonds in the amount of \$125,000 to pay for the balance of the streetscape project. Repayment of the loan is expected to be made with Tax Incremental Finance tax revenues. Interest rates vary from 4.2% to 4.5% and are payable semi-annually on April 1 and October 1 and principal is payable annually on April 1.

In December, 2006, the Village authorized establishing a Line of Credit in the amount of \$75,000 at Range Bank to aid cash flows as necessary. On February 26, 2007, the Village borrowed \$50,000 on the Line of Credit. Repayment of the loan is expected to be made with General Fund revenues. Interest at the rate of 5.6% is payable along with the entire principal balance within one year.

During the year, the Village and the Downtown Development Authority agreed to a repayment schedule for the undistributed tax revenues. The repayments will be done without interest and with annual payments without a specific due date.

The Village authorized the issuance of \$1,200,000 general obligation tax bonds, series 2001, date as of June 28, 2001. The bonds were used to pay for the construction and installation of improvements of the water supply system. Repayment of the bonds is expected to be made from the proceeds from the sale of water. Interest at the rate of 2.5% is payable semi-annually on October 1 and April 1 and principal is payable annually on October 1.

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Type Activities						
Fire Truck Loan	4.25%	01-Dec-19	\$ 70,000	\$ (4,000)	\$ 66,000	\$ 4,000
Pickup Truck Loan	12.75%	22-Feb-10	12,855	(2,632)	10,223	2,989
Streetscape Bonds	Vary	04-Apr-21	0	125,000	125,000	5,000
Line of Credit	5.60%	~	0	50,000	50,000	50,000
Downtown Development	None	2011	<u>0</u>	<u>32,839</u>	<u>32,839</u>	<u>2,500</u>
Total Governmental Type Activities			<u>\$ 82,855</u>	<u>\$ 201,207</u>	<u>\$ 284,062</u>	<u>\$ 64,489</u>

VILLAGE OF LAKE LINDEN
NOTES TO FINANCIAL STATEMENTS
February 28, 2007

NOTE I - CHANGES IN LONG TERM DEBT (CONTINUED)

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business Type Activities						
General Obligation Tax Bonds						
Water System Bonds	2.50%	01-Oct-31	\$ 1,085,000	\$ (30,000)	\$1,055,000	\$ 30,000
Total Business Type Activities			<u>\$ 1,085,000</u>	<u>\$ (30,000)</u>	<u>\$1,055,000</u>	<u>\$ 30,000</u>

Annual debt service requirements to maturity for the above obligations are as follows:

Year end February 28	<u>Government Type Activities</u>		<u>Business Type Activities</u>	
	Principal	Interest	Principal	Interest
2008	64,489	9,295	30,000	26,375
2009	18,393	8,490	30,000	25,625
2010	23,341	7,567	30,000	24,875
2011	23,000	6,793	35,000	24,125
2012	21,839	6,224	35,000	23,250
2013-2017	72,000	22,115	185,000	103,000
2018-2022	61,000	5,560	210,000	78,625
2023-2027	0	0	235,000	51,125
2028-2032	0	0	265,000	20,250
2033-2035	<u>0</u>	<u>0</u>	<u>202,000</u>	<u>18,720</u>
Totals	<u>\$ 284,062</u>	<u>\$ 44,443</u>	<u>\$1,055,000</u>	<u>\$ 377,250</u>

NOTE J - RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village maintains commercial insurance coverage covering each of those risks of loss. Except for the amounts discussed in the Contingency Note above, management believes such coverage is sufficient to preclude any significant uninsured losses to the Village. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

REQUIRED
SUPPLEMENTAL
INFORMATION

VILLAGE OF LAKE LINDEN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year ended February 28, 2007

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance			\$ (1,697)	
Resources (Inflows)				
Property taxes			131,279	
Federal grants			85,012	
State shared revenues and grants			150,807	
Licenses and permits				
Fines and forfeitures			157	
Charges for services			24,056	
Interest and rentals			114,473	
Sale of property			5,235	
Refunds and reimbursements				
Loan proceeds			175,000	
Other			<u>7,612</u>	
AMOUNTS AVAILABLE FOR APPROPRIATION			\$ <u>691,934</u>	
Charges to Appropriations (Outflows)				
General Government				
Council and president			\$ 7,480	
Elections			146	
Clerk			44,045	
Treasurer			4,899	
Village hall, property and grounds			28,408	
Public Safety				
Police			51,965	
Crossing guards			4,743	
Fire			11,243	
Public Works				
Maintenance			1,756	
Parking lots			1,659	
Sidewalks			737	
Street lighting			20,848	
Equipment			80,141	
Parks and Recreation			28,799	
Insurance and Benefits			101,749	
Debt service			10,155	
Capital outlay			151,424	
Transfers to other funds			<u>2,879</u>	
TOTAL CHARGES TO APPROPRIATIONS			\$ <u>553,076</u>	
BUDGETARY FUND BALANCE--ENDING			\$ <u><u>138,858</u></u>	

Budget was not prepared on an activity basis so comparisons are not available

VILLAGE OF LAKE LINDEN
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND
Year ended February 28, 2007

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance			\$ 73,464	
Resources (Inflows)				
Federal grants			172,188	
State shared revenues			477,905	
Interest earned			515	
Other			<u>0</u>	
AMOUNTS AVAILABLE FOR APPROPRIATION			\$ 724,072	
Charges to Appropriations (Outflows)				
Construction			\$ 540,075	
Route maintenance			25,470	
Trunkline maintenance			27,644	
Traffic services			4,182	
Winter maintenance			33,958	
Administration			5,157	
Transfers to other funds			<u>16,233</u>	
TOTAL CHARGES TO APPROPRIATIONS			\$ <u>652,719</u>	
BUDGETARY FUND BALANCE--ENDING			\$ <u><u>71,353</u></u>	

Budget was not prepared on an activity basis so comparisons are not available

VILLAGE OF LAKE LINDEN
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET FUND
Year ended February 28, 2007

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance			\$ 5,508	
Resources (Inflows)				
Property taxes			46,544	
State grants and shared revenues			59,535	
Contributions from other governmental units			13,190	
Interest earned			108	
Transfers from other funds			<u>16,233</u>	
AMOUNTS AVAILABLE FOR APPROPRIATION			\$ 141,118	
Charges to Appropriations (Outflows)				
Construction			\$ 0	
Route maintenance			37,239	
Traffic services			4,000	
Winter maintenance			34,150	
Administration			<u>2,305</u>	
TOTAL CHARGES TO APPROPRIATIONS			\$ <u>77,694</u>	
BUDGETARY FUND BALANCE--ENDING			\$ <u><u>63,424</u></u>	

Budget was not prepared on an activity basis so comparisons are not available

VILLAGE OF LAKE LINDEN
MERS PENSION FUNDING AND STATISTICS
FEBRUARY 28, 2007

SCHEDULE OF FUNDING PROGRESS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	UNFUNDED AAL (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
31-Dec-04	487,378	778,472	(291,094)	63%	288,061	-101%
31-Dec-05	538,515	847,102	(308,587)	64%	281,626	-110%
31-Dec-06	595,720	807,182	(211,462)	74%	252,945	-84%

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
31-Dec-04	25,972	100%
31-Dec-05	33,527	100%
31-Dec-06	28,076	100%

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	LEVEL PERCENTAGE OF PAYROLL
AMORTIZATION PERIOD	29 YEARS, OPEN
ASSET VALUATION METHOD	ADJUSTED 10 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	8.00%
PROJECTED SALARY INCREASES*	4.5% - 12.9%
*INCLUDES MERIT/LONGEVITY INCREASES	0% - 8.4%
INFLATION	3% - 4%
OTHER	1994 GROUP MORTALITY TABLE

ADDITIONAL

INFORMATION

SCOTT R. KENNEY

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

Village Board
Village of Lake Linden
401 Calumet Street
Lake Linden, MI 49945

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Lake Linden, Michigan (Village) as of and for the year ended February 28, 2007, which collectively comprise the Village of Lake Linden, Michigan's basic financial statements and have issued my report thereon dated October 19, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed three instances of noncompliance that are required to be reported under Government Auditing Standards.

1. The chart of accounts used by the Village is not in compliance with the Uniform Chart of Accounts required to be used by the State of Michigan.
2. The Budget is not in compliance with the Uniform Budgeting Act of the State of Michigan. The Village budget was not adopted on a line item or activity basis. The budget is adopted on a fund basis with a total for each type of account.
3. The Village has not timely remitted all property taxes received as is required by the Property Tax Act of the State of Michigan.

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4. The Village ordinances state amounts to be charged for utility services. The Board has subsequently increased the charges via resolution without a corresponding change to the ordinances.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered the Village's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted four matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

1. The Village experienced the fraudulent theft of funds by an officer taking the cash receipts paid by customers on their utility accounts.
2. The Village experienced the fraudulent theft of funds through the cashing of a Village check and manipulation of the financial records to conceal the act.
3. The Village has maintained its utility fund financial records on a cash basis, not the accrual basis required by accounting principles generally accepted in the United States of America.
4. The Village has not received reports and no records were kept by the discretely presented component unit, the Lake Linden Volunteer Fire Department.

In addition, I noted other matters involving the internal control over financial reporting that I have reported to the management of the Village in a separate letter dated October 19, 2007.

This report is intended solely for the information and use of the audit committee, management, Village Board and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.


Certified Public Accountant

October 19, 2007

SCOTT R. KENNEY

Certified Public Accountant

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Crystal Falls, Michigan 49920
(906) 875-4393 Fax: (906) 875-3879

Village Board
Village of Lake Linden
401 Calumet Street
Lake Linden, MI 49945

In conjunction with the audit of the financial statements of the Village of Lake Linden (Village) as of and for the year ended February 28, 2007, I have reviewed the Village's accounting policies, procedures and systems of internal control. My audit was conducted primarily to enable me to formulate an opinion on the Village's financial statements and, accordingly, would not disclose all weaknesses in the system which may exist. My review disclosed certain areas in which I believe more effective internal control or increased efficiency may be achieved. This letter is intended to summarize my findings and present my overall conclusions and recommendations. It has been prepared solely for the information of the Village Board and management and should not be presented or quoted to anyone outside of the Village because of the possibility of misunderstanding by other persons who may not be aware of the objectives and limitations of internal controls and my study and evaluation thereof. Statement on Audit Standard Number 112 (SAS 112) requires that I inform the Village of all control deficiencies and those control deficiencies be split into one of two types. The two types of control deficiencies are "significant deficiencies" and "material weaknesses". A significant deficiency is defined as a control deficiency that has more than a remote likelihood that the entity's ability to initiate, authorize, record, process or report financial data in compliance with accounting principles generally accepted in the United States of America will be adversely affected and that such affect will be more than inconsequential. A material weakness is defined as a significant deficiency(ies) that could have a material affect on the financial statements. The third material weakness comment is repeated from the prior year's letter of comments and recommendations.

MATERIAL WEAKNESSES

1. **OBSERVATION** - The Village was defrauded during the past year (and several years prior) by a former officer (Treasurer) of the Village by taking the cash paid by utility customers for personal use and not depositing the cash into the Village accounts. The Village is using separate utility accounting and financial accounting systems without electronic interface.

The Treasurer, after receiving the payments from customers, passed all of the daily utility payment stubs to the Clerk for input to the utility accounting system including those where the cash had been misdirected. The customers accounts were updated with the payment information from the stubs. The accounting system was updated with the receipt information from the Treasurer with the two amounts never being compared.

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RECOMMENDATION - I recommend that the Village implement a procedure where the amount deposited in the bank and the posting to the utility system be compared. All discrepancies should be pursued, reconciled, documented and, if necessary, reported to the finance committee.

2. **OBSERVATION** - The former officer (Treasurer) had written a check to herself, cashed it and changed the accounting records and check image that is returned to the Village from the bank to a different payee. The check was initiated by the former Treasurer and signed by her and stamped, presumably by her, with the signature of the Board President using his signature stamp. The control procedure calls for all checks to contain two signatures with the Clerk normally preparing the checks and the Clerk and Treasurer signing them.

RECOMMENDATION - I recommend that the any signature stamp that is used in the check process be controlled only by the individual that is named on the stamp or that signature stamps not be allowed on checks.

I further recommend that the Village implement a procedure of having a Board member review all invoices and other supporting documents in support of checks. This information should be compared to a sequential listing of the checks including the check number and date prior to payments being made except when a financial penalty will occur if a bill is not timely paid. The review should still occur as part of this process, only on a post-payment basis. This review should be reported at the monthly Board meeting and documented in the minutes. The documentation should include the check sequence and the total of the disbursements.

After discovering this act as part of the audit, the Village destroyed the Village President's signature stamp.

3. **OBSERVATION** - As has been recommended for several years, the Village has not maintained its utility funds financial records on an accrual basis. This has prohibited the reconciliation of utility accounts receivable which may have led to the timely discovery of the fraud perpetrated in Observation 1 above.

RECOMMENDATION - I recommend that the Village convert both the Water Fund and Sanitation Fund financial records to the accrual basis as is required by accounting principles generally accepted in the United States of America. When complete, the Village will record its revenue and accounts receivable when charges (monthly bills) are generated in its financial accounting records. Receivables are relieved as customer payments are received and deposited. The utility accounts receivable balance and financial accounts receivable balance should then be reconciled at least monthly.

4. **OBSERVATION** - The Lake Linden Volunteer Fire Department (Fire Department) has not prepared or presented any financial reports to the Village Board for their review. In addition, support for any receipts or payments has not been maintained.

RECOMMENDATION - I recommend that the Fire Department implement a control system for its receipts and disbursements including but not limited to maintaining all documents in support of all financial transactions.

I also recommend that the Fire Department report all of its financial balances to the Village Board periodically, preferably not less than quarterly. Further, the Fire Department should make all of its records and supporting documents available to the Board or Board designated individual upon request.

5. **OBSERVATION** - The Village has not been compliant with several Acts of the State of Michigan and some of its own ordinances as is listed in the Compliance section of the letter included at the back of the audited financial statements.

RECOMMENDATION - I recommend that the Village adopt the chart of accounts including the associated numbering system for maintaining its financial accounting records. Further, I recommend that once the above chart is adopted that the Board amend its budget to comply with the Uniform Budgeting Act of the State of Michigan.

I also recommend that the Village follow its agreed upon plan with the Downtown Development Authority and remit the past amounts that are due along with its current collections.

Finally, I recommend that the Village review its utility ordinances, identify those that are not being complied with and adopt an amendment to the ordinance. The removal of specific dollar references from the ordinances should be replaced with verbiage allowing the Board to be able to update amounts charged to its customers by Board resolution.

SIGNIFICANT DEFICIENCIES

1. **OBSERVATION** - The Village pension plan is substantially underfunded as is reflected in the actuarial report. The underfunded condition is being reduced by increased pension payments by the Village to the plan. The recent history of the plan can be found in the footnotes to the financial statements and on page 37 of the audit.

RECOMMENDATION - I recommend that the Village Board consider closely the **long term** effect of any contemplated changes to the plan.

2. **OBSERVATION** - The Village had been charging sewer assessments that were payable to Houghton County as part of its property tax billing over the past several years. The obligation to the County is now satisfied but balances totaling more than \$1,000 remain outstanding. The assessor has advised the Village that these amounts cannot be charged as the obligation is satisfied.

RECOMMENDATION - I recommend that the Village get an opinion from its legal counsel verifying that the Assessor's statement is correct.

3. **OBSERVATION** - No personal property is being assessed or tax captured that lies within the Tax Incremental Finance District (TIF).

RECOMMENDATION - I recommend that the assessor be contacted regarding the property value assessments with the TIF and the property values added, if appropriate.

4. **OBSERVATION** - No late payment penalties or interest were added to property tax bills that were paid after the due date in violation of the verbiage printed on the bill.

RECOMMENDATION - I recommend that late payment penalties and interest be added to all payments that are received after the prescribed payment date to comply with the information contained on the bill. This also provides an incentive for property owners to timely pay their taxes.

5. **OBSERVATION** - The Village does not have a policy prohibiting the personal use of Village property. Nothing came to my attention during the audit that would indicate that Village property is being misused by employees or others.

RECOMMENDATION - I recommend that the Village adopt a policy restricting or prohibiting the personal use of Village property.

6. **OBSERVATION** - The State of Michigan had forwarded a revenue sharing check to the Village during the audit period which was not received. The check, which should have arrived on a regular schedule, was missing and not pursued as to the cause of the non-payment or location of the check. This was not noted or pursued until the check was discovered as missing during the audit.

RECOMMENDATION - I recommend that all payments to the Village be verified against the anticipated payment schedule. I also recommend that the various State payments be handled via direct deposit to the Village checking account to strengthen internal control and to assure that the payments are not lost in the mail process.

7. **OBSERVATION** - One of the Board members has been included on the health insurance of the Village. He has been reimbursing the Village for the cost of the premiums. The co-payments for pharmaceuticals were paid to the Board member and not reimbursed to the Village. The cost of these payments were \$1,822 during the audit period.

RECOMMENDATION - The Village needs to offer benefits to its employees (including Board Members) on a non-discriminatory basis. That means that employees working part time should be offered the same benefits. Therefore, I recommend that the practice of offering insurance coverage, even on a self pay basis, to any employee working less than full time as defined by the benefit plan be stopped.

8. **OBSERVATION** - The Village presently has only two staff persons in its office, the full time Clerk and part time Treasurer (the Treasurer was hired after the end of the fiscal year).

The limited number of staff means that an adequate separation of duties is difficult to maintain. These positions have historically performed at least a portion of the duties of the other officer in their absence.

RECOMMENDATION - I recommend that the Village hire and train a deputy clerk and a deputy treasurer to perform the duties of the Clerk or Treasurer in their absence.

9. **OBSERVATION** - The Village is maintaining separate cash accounts in each fund. While this is an acceptable practice it leads to several inefficiencies by having to issue multiple checks to satisfy a single invoice.

RECOMMENDATION - I recommend that a cash account be maintained within each fund. Checks, however, should be issued from a single account with money being transferred from each fund to the commingled checking account via bank transfer. This will limit the number of checks being issued and maintain proper accounting for the disbursements.

10. **OBSERVATION** - Checks that are received from customers are not being endorsed until they are deposited by the Treasurer.

RECOMMENDATION - All check payments that are received by the Village should be restrictively endorsed by the person receiving the payment. This was implemented by the Village after the close of the fiscal year.

11. **OBSERVATION** - Billing for services other than utilities is done manually and not tracked within the financial accounting system. In some cases, the Village has charged for the services on a basis that conflicts with the applicable ordinance or resolution.

RECOMMENDATION - I recommend that invoices be pre-numbered and produced and tracked within the financial accounting system through the accounts receivable module. In addition, I recommend that the accounts be charged on a basis consistent with the applicable authority.

12. **OBSERVATION** - Some prior year audit adjustments were not posted to the financial records resulting in improper reporting of results of operations and financial position.

RECOMMENDATION - The recommended audit adjustments have been provided to the Village. I recommend that the audit adjustments be posted so the beginning account values match the audited amounts.

13. **OBSERVATION** - When computing the revenues in the Sanitation Fund based on the bag inventory, a small shortage in the revenues resulted.

RECOMMENDATION - I recommend that the controls on charges for bags be strengthened by taking and reconciling a physical inventory of bags on a periodic (monthly) basis. Further, I recommend that any unreconciled variance be reported to the appropriate

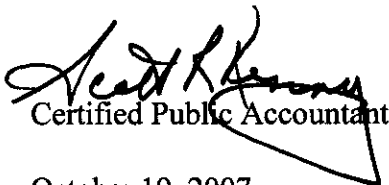
committee of the Board.

14. **OBSERVATION** - A physical inventory of general fund and water fund supplies on hand, including sand and salt, was not taken at the end of the fiscal year. These amounts were subsequently estimated.

RECOMMENDATION - I recommend that the Village take a physical inventory of the various supplies on hand at the conclusion of each fiscal year.

I would like to thank the Village for allowing me to conduct the audit of the financial statements and I would especially like to thank Bob Poirier and Ed Fisher for their assistance during the audit.

If the Village would like my assistance in implementing any of the above recommendations or would like to discuss any of these items further, I am willing to assist you in any way that I can.


Certified Public Accountant

October 19, 2007